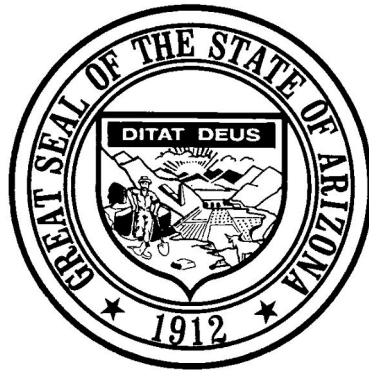


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**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION**



FISCAL YEAR 2012 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2012 Annual Report, as required by A.R.S. §41-623, summarizes liability, property, and workers' compensation expenditures, and provides information on loss prevention efforts and overall achievements of the Risk Management Division during the fiscal year.

The Risk Management Division was established in 1976, and is tasked with the management and mitigation of liability, property, and workers' compensation claims. Statutes found in A.R.S. §41-621 et seq., and administrative rules found in A.A.C.- R2-10-101 through R2-10-601, outline the parameters of the program, including coverage for agencies, employees, boards and commissions. The Risk Management Division provides consultations with state agency personnel to recommend programs and procedures aimed at reducing or eliminating risk. On an annual basis, Risk Management performs a comprehensive evaluation of its insurance program to determine the proper mix of purchased commercial insurance and risk retention.

Funding for Risk Management programs is provided from the Risk Management Revolving Fund. Revenues into the fund are generated as follows:

- An actuarial projection is developed for property, liability, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums and attorney general defense. The total is then allocated and invoiced to agencies based on a formula that assesses risk exposure as well as historical losses.
- An actuarial projection is also developed for workers' compensation time loss, medical, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums, and attorney general defense. The total is then allocated to agencies based on an allocation method from the National Council on Compensation Insurance (NCCI). The NCCI method calculates a rate per payroll using employee classifications modified by the agency's historical losses.

ACHIEVEMENTS AND GROWTH

Fiscal Year 2012 marked a year of significant achievements and continued growth.

Risk Management implemented Phase 2 of the Document Management System (DMS) by enhancing existing property and liability functions and by fully integrating workers' compensation workflow. The Document Management System creates a paperless claims adjusting process to improve efficiency, workflow, data integrity, security, and response time. During Fiscal Year 2013, further enhancements will be made by developing an interface with the Risk Management Information System, the medical bill review contractor, and the Arizona Financial Information System (AFIS).

The Workers' Compensation Section moved from a paper adjudication process to a sophisticated on-line cost containment adjudication portal that allows adjusters immediate access to medical bills and associated medical reports to quickly review, edit, approve, or deny medical bills. Adjudication has been reduced from up to 30 days to 10 days. Medical reports and bills are no longer received, stamped, indexed, distributed, manually reviewed, and filed by clerical staff. Medical reports and bills are now received, batched, and mailed overnight to the contractor for scanning, coding, and imaging within two business days. This improvement results in less lag time, fewer calls, and fewer staff hours tied to a dated manual process.

The Property and Liability Section implemented a File Transport Protocol (FTP) site to securely transfer claims data to and from agencies, vendors, and legal counsel. The use of the FTP site eliminates manually copying and transporting paper files, many of which are contained in several volumes.

The Property and Liability Section developed separate data collections within the Document Management System, then uploaded and indexed hundreds of historical documents for more secure and efficient storage and retrieval:

- *968 Joint Legislative Budget Committee(JLBC) Rule 14* collections*
- *210 documents containing annuity information*
- *44 agency corrective action responses for third party liability settlements and judgments in excess of \$150,000*

The Property and Liability Section piloted a streamlined vehicle windshield claims adjusting procedure aimed at reducing processing time and creating efficiencies by empowering agencies with decision making authority. In Fiscal Year 2012, 1923 windshield claims were processed. The Section plans to expand the new program in Fiscal Year 2013.

**Pursuant to A.R.S. §41-621, the Joint Legislative Budget Committee (JLBC) Rule 14 requires JLBC approval of liability settlements of \$250,000 or greater*

The Property and Liability Section completed a vendor audit related to state auto property damage. The overall positive result included one recommendation to more frequently utilize “Like, Kind and Quality (LKQ)” when appropriate. LKQ is an insurance term referring to the replacement of damaged, destroyed, or lost property with used property of similar type and condition.

The Property and Liability Section, Large Loss Support Unit, assisted agency representatives in completing a total of eleven Agency Loss Mitigation plans. Seven were required under the authority of the Joint Legislative Budget Committee (JLBC) Rule 14 settlements and four were required as per A.A.C. Rule 2-10-10.

Risk Management fulfilled its mandatory federal reporting requirement for Section 111 of the Medicare, Medicaid, and SCHIP Extension Act (MMSEA) of 2007. Section 111 requires all insurance companies (including self-insured entities) to report quarterly to the Center for Medicare Services (CMS) on injury information for claimants who are Medicare beneficiaries.

The Loss Prevention Section conducted six separate risk insurance training sessions with 284 attendees representing over twenty state agencies completing the instruction. Each session consisted of six separate components totaling approximately fourteen to sixteen hours of training. The curriculum included dynamics of risk, procurement insurance concepts and terminology, fidelity/insurance crime prevention, special contingency risk management, and contract compliance.

Loss Prevention implemented a number of improvements and efficiencies to assist state agencies address loss exposures:

- *Reviewed and monitored 45,000 state employee driver records through the Arizona State Employee Driver Record Application (ASEDRA) Program*
- *Provided defensive driving on-line Computer Based Training (CBT) for over 8900 state employees*
- *Assisted the Department of Health Services and the Department of Economic Security with the implementation of an on-line computer based training for handling suspicious mail and packages*
- *Implemented Emergency Action Plans (EAP) and designed a standard matrix for fire alarm detection system upgrades for buildings on the Capitol Mall*
- *Developed Emergency Action Plan (EAP) templates for statewide programs and procedures*
- *Provided OSHA 30 -hour training for the Department of Administration General Services Division FOAM, and the Department of Game and Fish*
- *Reviewed 31 building plans in conformance with A.R.S. §41-623E*
- *Developed a Continuity of Operations Plan (COOP) for workers' compensation essential functions*
- *Provided an Associate in Claims (AIC) certification training for eight Risk Management employees*

The Loss Prevention Environmental Unit provided assistance to state agencies dealing with environmental loss exposures:

- *Assisted the University of Arizona and the Arizona Department of Environmental Quality in completing the post-closure permit for the hazardous waste facility at Page Trowbridge Ranch Landfill in Oracle, Arizona*
- *Identified agency-owned underground storage tanks (as well as underground storage tanks located on state property) likely to be damaged by the incompatibility of alcohol-blended fuel and fiberglass-lined storage tanks. The unit provided training for appropriate agency personnel, coordinated evaluation and sample collection from tanks operated by the Department of Transportation and the Schools for the Deaf and Blind, and collected fuel and water samples for analysis by the federal Environmental Protection Agency (EPA)*
- *Excavated and disposed of a historic pesticide dumpsite on state land located near Picacho, Arizona*
- *Identified all shooting ranges located on state land (or operated by state agencies) and developed methodology for the assessment of surface soil contamination as a source of airborne lead exposure*
- *Coordinated negotiations and provided a technical review of the federal Environmental Protection Agency (EPA) buy-out and consent order with the University of Arizona for the Ellis Road Superfund Toxic Site*
- *Completed an operational review and provided recommendations for improvements for three Department of Corrections waste water treatment plants*
- *Developed methodology and assisted the Department of Environmental Quality and the Department of Public Safety in completing its evaluation of potential surface water contamination associated with a leaking underground storage tank site in Sunflower, Arizona*
- *Completed remediation of fuel release at the University of Arizona telescope site at Mt. Graham, Arizona*
- *Continued efforts to develop a management program for drywells managed by the Department of Administration*
- *Assisted the Arizona State Health Laboratory with a review and recommendation for disposal of unneeded chemicals*
- *Provided legal support and technical review of a hazardous waste closure permit for the Universal Propulsion Facility on state land*
- *Obtained closure from the Department of Environmental Quality for the Department of Economic Security leaking underground storage tank site in Coolidge, Arizona*
- *Completed an assessment of the Department of Arizona fuel storage tanks on the Capitol Mall and provided recommendations to correct deficiencies*
- *Completed a review of the Department of Administration air quality permit, identified potential additional sources, and assisted with permit inspection by the Maricopa County Air Quality Division*

Risk Management recorded significant savings through numerous claims adjusting subrogation efforts:

- *Environmental claim recoveries: \$30,746*
- *Environmental claim invoice savings: \$96,600*
- *Workers' Compensation third party recoveries: \$703,796*
- *Property and liability third party recoveries: \$1,054,442*

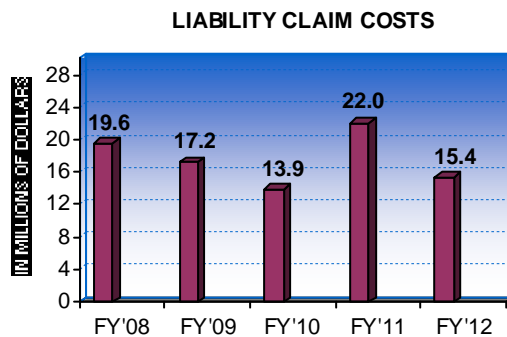
FISCAL YEAR 2012 COSTS AND COMPARISONS

Liability expenditures for Fiscal Year 2012 were \$15.4 million – significantly less than \$22 million in Fiscal Year 2011; however, Fiscal Year 2011 included one extraordinary bodily injury claim in the amount of \$5 million. The five-year average for liability expenditures, excluding the extraordinary \$5 million claim in Fiscal Year 2011, is \$16.6 million.

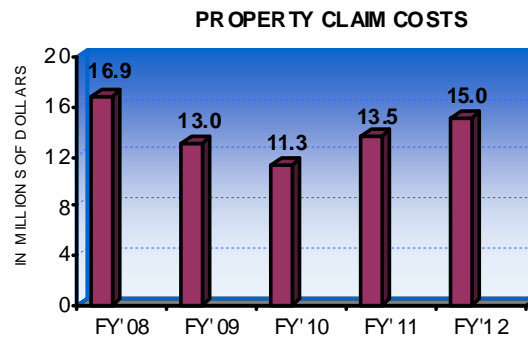
Property expenditures in Fiscal Year 2012 were \$15 million including \$1.5 million from extraordinary claims due to hail damage. The five-year average for property expenditures is \$13.9 million.

Workers' Compensation expenditures in Fiscal Year 2012 showed an \$800,000 increase over Fiscal Year 2011. Increases resulted from medical inflation and a statutory increase in lost time payment.

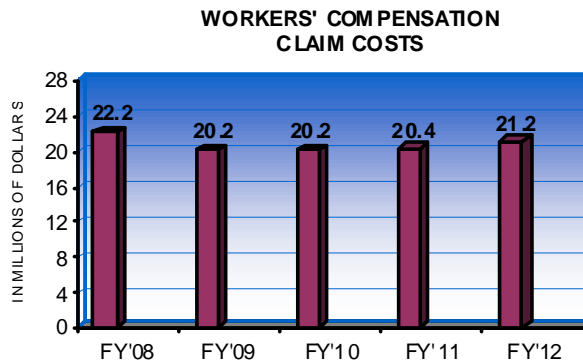
The following charts depict five-year cost comparisons:



FY'11 includes one extraordinary bodily injury claim of \$5 million



FY'11 extraordinary claims due to hail damage: \$977,744
FY'12 extraordinary claims due to hail damage: \$1,571,372



LIABILITY PROGRAM

In the Fiscal Year 2012, there were 2,916 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2012, including outside counsel and allocated loss adjustment expenditures, were \$15.4 million. General liability claims include third party bodily injury and property damage, highway maintenance, and negligence in oversight of state-managed programs. The category of personal liability includes such areas as employment discrimination, defamation, and civil rights violations. Medical malpractice includes errors and omissions by state medical professionals. Automobile liability includes third party claims for injuries and property damage resulting from the use of automobiles by state employees engaged in state business.

General Liability – Bodily Injury claims were the most expensive claims in the liability category, representing 63% of the total cost. Personal Liability was second and represented 15% of the total cost. Medical malpractice payments were \$675,000. The following table breaks down the frequency of claims reported in Fiscal Year 2012 and amounts paid regardless of occurrence date by loss type:

| Loss Type | Frequency | Liability Losses |
|--------------------------------------|-------------|---------------------|
| General Liability – Bodily Injury | 490 | \$9,630,000 |
| Personal Liability | 540 | \$2,292,000 |
| General Liability – Property | 1205 | \$1,060,000 |
| Automobile Liability – Bodily Injury | 67 | \$1,268,000 |
| Automobile Liability – Property | 556 | \$475,000 |
| Medical Malpractice | 58 | \$675,000 |
| | | |
| Total | 2916 | \$15,400,000 |

The following table shows frequency of claims reported and liability losses in Fiscal Year 2012 for the agencies with the largest liability losses:

| Agency | Frequency | Liability Losses |
|----------------------------------|-------------|---------------------|
| Department of Transportation | 517 | \$4,472,000 |
| Department of Corrections | 885 | \$2,214,000 |
| State Mine Inspector | 0 | \$1,344,000 |
| Department of Economic Security | 394 | \$1,294,000 |
| University of Arizona | 160 | \$1,130,000 |
| Department of Public Safety | 178 | \$963,000 |
| Department of Veterans' Services | 14 | \$765,000 |
| Arizona State University | 104 | \$748,000 |
| | | |
| Sub-Total | 2252 | \$12,930,000 |
| All Other Agencies | 664 | \$2,470,000 |
| Total | 2916 | \$15,400,000 |

PROPERTY PROGRAM

In Fiscal Year 2012, there were 5,088 property claims reported by state agencies. Losses totaled \$15 million.

The top two loss categories by frequency of occurrence and severity of payments were real and personal property. Real property covers facilities owned by the state such as office buildings, prison facilities and general infrastructure. Environmental property covers state buildings and state lands that sustain environmental damage. Personal property includes state owned vehicles, furniture, computers and other tangible property.

The following table breaks down the frequency of claims reported in Fiscal Year 2012 and amounts paid regardless of occurrence date by loss type:

| Loss Type | Frequency | Property Losses |
|------------------------|--------------|---------------------|
| Real Property | 975 | \$10,400,000 |
| Personal Property | 4083 | \$4,100,000 |
| Environmental Property | 11 | \$476,000 |
| Other | 19 | \$24,000 |
| Total | 5,088 | \$15,000,000 |

Frequency of claims reported and property losses in Fiscal Year 2012 for the agencies with the largest property losses are as follows:

| Agency | Frequency | Property Losses |
|--------------------------------------|--------------|---------------------|
| Arizona State University | 398 | \$2,422,000 |
| Arizona Department of Transportation | 997 | \$2,234,000 |
| Citizen's Clean Election Campaign | 0 | \$2,000,000 |
| University of Arizona | 631 | \$1,772,000 |
| Department of Public Safety | 942 | \$1,170,000 |
| Department of Administration | 342 | \$1,100,000 |
| Department of Corrections | 747 | \$814,000 |
| Schools for the Deaf and Blind | 61 | \$548,000 |
| Northern Arizona University | 278 | \$453,000 |
| Department of Economic Security | 404 | \$390,000 |
| | | |
| Sub-Total | 4800 | \$12,903,000 |
| All Other Agencies | 288 | \$2,097,000 |
| Total | 5,088 | \$15,000,000 |

WORKERS' COMPENSATION PROGRAM

The State Workers' Compensation Program provides benefits to state employees injured during the course and scope of their employment. The program pays medical, surgical, lost wages and hospital disability benefits as provided by law under the Arizona Workers' Compensation Act.

The Managed Care Incentive Program provides quality medical care for state employees injured on the job. More than 48 hospitals, 3000 physicians and 12 industrial clinics are available to employees within the network.

The Early Claims Notification System continues to be successful. This system involves early notification of workers' compensation claims by injured state employees or their supervisors, allowing them to call in the first report of an industrial injury to the workers' compensation unit 24 hours a day, 7 days a week.

The Early Return to Work with Modified Duty Program continues to prove effective in many state agencies. A disability management specialist works with injured workers, their supervisors and managers to find positions within their agency that allow the injured worker to return to work as soon as possible. Placing an injured worker in these modified duty positions enables the employee to make a smooth and safe transition to their former duties or to a new position that is suitable for them. In addition to managing the Modified Duty Program, the disability management nurse has helped implement an in-house Utilization Review Program. All medical diagnostic procedures must be reviewed for medical necessity and appropriateness before authorization. This process is typically completed within 24 hours to help ensure recovery of injured employees.

The following table breaks down the frequency of claims reported in Fiscal Year 2012 and amounts paid regardless of occurrence date by loss type:

| Agency | Frequency | WC Losses |
|------------------------------------|-----------|--------------|
| Department of Corrections | 1561 | \$6,360,000 |
| Department of Economic Security | 422 | \$2,490,000 |
| Department of Transportation | 212 | \$1,731,000 |
| University of Arizona | 316 | \$1,683,000 |
| Department of Public Safety | 220 | \$1,640,000 |
| Arizona State University | 266 | \$1,260,000 |
| Department of Health Services | 268 | \$1,100,000 |
| Department of Juvenile Corrections | 136 | \$781,000 |
| Arizona Superior Courts | 255 | \$770,000 |
| Northern Arizona University | 176 | \$526,000 |
| | | |
| Sub-total | 3832 | \$18,341,000 |
| All other agencies | 535 | \$2,909,000 |
| Total | 4367 | \$21,250,000 |

LOSS PREVENTION PROGRAM

The Arizona Revised Statutes require each state agency to conduct risk identification and assessment, and implement a loss prevention program to reduce frequency and severity of losses in the following areas:

- Real and personal property protection
- Employee safety in the work environment
- Federal and state standards for industrial hygiene and environmental protection
- Negligent acts that cause harm to third-parties

The primary responsibility of the Loss Prevention Unit is to work with state agencies to reduce or eliminate their exposure to risk. Risk Management Loss Prevention provides professional services in a variety of areas including property, liability, environmental, and worker protection.

Loss Prevention provides professional safety consultants, industrial hygienists and environmental specialists to assist agencies in developing and implementing loss prevention programs. Safety consultants also provide assistance in solving everyday loss prevention problems in the following areas:

- | | | |
|------------------------|--------------------------|-------------------------------|
| ➤ Construction Safety | ➤ Security | ➤ Site and Hazard Assessment |
| ➤ Industrial Safety | ➤ Course of Construction | ➤ Health and Safety Education |
| ➤ Hazard Communication | ➤ Motor Vehicle Safety | ➤ CPR |
| ➤ Fire Safety | ➤ Emergency Planning | ➤ Ergonomics |
| ➤ Fair Safety | | |

Assistance is provided in risk assessment and corrective action, program development and implementation by means of Assessment, Consultation, and Evaluation (ACE) Reports. An ACE report is a focused inspection and consultation to assess a particular risk exposure, along with written recommendations for corrective actions. The top three ACE subjects and recommended corrective actions are:

Fire and Security

- Fire Extinguisher Inspection, Maintenance, Service and Training
- Training on Fire Protection Practices
- Wildfire Preventative Actions
- Security Lighting Enhancements
- Fire Door Repair

Safety Inspection

- Guardrail Installation
- Emergency Evacuation Plans (Drills)

- Repair of Emergency Lighting/Exit Signs
- Secure Machinery

Building Indoor Air Quality

- Air Diffuser Cleaning
- General HVAC Maintenance
- Mold Consultation/Testing/Mitigation

OCCUPATIONAL HEALTH SERVICES

Occupational Health Services is responsible for the post-offer physical examinations of potential state employees whose jobs put them at risk of occupational illness or injury. Occupational Health Services schedules, evaluates, and pays for these examinations for various state agencies.

In Fiscal Year 2012, 1246 post-offer exams were conducted. The average number of days to process exam findings was less than one day. This measures the turn-around period from the time the staff nurse receives the prospective state employee's medical information until the agency is notified of the candidate's status.

The total cost for Occupational Health Services exams in Fiscal Year 2012 was \$141,428.